



CHINA
DEVELOPMENT
FINANCIAL

Frasers Centrepoint Trust

(FCT SP/FCRT.SI)

Defensive suburban retail player with a clear growth strategy

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- **Expansion of suburban footprint.** FCT recently acquired an 18.8% stake in PGIM Real Estate Asia Retail Fund, the largest non-listed retail fund in Singapore and a 33.3% stake in Waterway Point from sponsor, Frasers Property.
- **Overhanging retail supply threat.** Approximately 36% of retail supply will be outside of the city central, competing directly with FCT for future shopper traffic.
- **Re-initiate with Neutral.** We prefer to wait for a better point of entry for accumulation.

Financials & Key Operating Statistics

SGD mn	2017	2018	2019F	2020F	2021F
Gross revenue	181.6	193.3	204.9	226.9	227.4
Net property income	145.2	153.1	165.4	183.9	184.3
Distributable income	110.6	111.1	117.9	134.3	134.6
DPU (SGD cents)	11.7	12.1	12.2	12.3	12.3
DPU growth (%)	-	3%	0%	1%	0%
Div Yield (%)	6.2%	5.6%	4.8%	4.8%	4.8%
NAV (SGD cents)	2.0	2.1	2.6	2.1	2.1
Price / Book (x)	0.9	1.0	1.0	1.2	1.2
NPI Margin (%)	80%	79%	81%	81%	81%
Net Margin (%)	115%	95%	67%	72%	72%
Gearing (%)	29.9%	29.6%	32.5%	32.5%	32.6%
ROE (%)	11%	9%	6%	7%	7%

Source: Company Data, KGI Research

Expansion of suburban footprint. FCT's acquisition of an 18.8% stake in PGIM Real Estate Asia Retail Fund (PREARFL) was quickly followed by a 33.3% stake in Waterway Point from sponsor, Frasers Property. The agreed transaction price for these two deals were S\$376mn and S\$440.6mn, both translating to NPI yields of 4.7%. With the inclusion of PREARFL's Singapore retail malls, monthly shopper traffic will increase from 8.3 million to 22.3 million.

About PGIM Real Estate Asia Retail Fund. PREARFL is the third largest shopping mall owner in Singapore, behind CapitaLand Mall Trust and NTUC, with a 5.8% market share. PREARFL holds a portfolio of 6 retail malls and one office property in Singapore and 4 retail malls in Malaysia. The underlying retail properties are mature and serve a specific residential precinct. Notable properties include Tiong Bahru Plaza and White Sands.

Premium paid for prime asset. Waterway Point enjoys prime positioning in the Punggol precinct, with one of the lowest retail mall floor space per capita at 2.77 sqft, less than half the overall average across Singapore (5.9 sqft). Punggol serves approximately 162,000 residents, with a population growth at a 3.8% CAGR, four times the national average. Waterway Point will be the youngest retail within FCT's portfolio, and the second largest by NLA, behind Causeway Point. We note that price psf transacted for Waterway point is on the steeper end compared to preceding transactions of recent retail malls. NPI yield remains to be decent and within the 4-4% - 4.9% yield range for prime shopping centres islandwide.

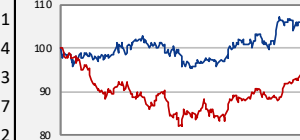
Reinitiate Coverage (Neutral)

Price as of 24 Jun 19 (SGD)	2.56	Performance (Absolute)	
12MTP (\$\$)	2.33	1 Month (%)	6.7
Previous TP (\$\$)	-	3 Month (%)	12.4
Upside, incl div (%)	-4.2%	12 Month (%)	24.3

Trading data

Mkt Cap (\$mn)	2,851
Issued Shares (mn)	1,114
Vol - 3M Daily avg (mn)	2.3
Val - 3M Daily avg (\$mn)	5.7
Free Float (%)	16.2

Perf. vs STI Index (Red)



Major Shareholders

TCC Assets	35.3%
Schroders PLC	4.4%
TMB Asset Management	2.1%

Previous Recommendations

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Supply threat delayed, for now. Retail space supply will peak this year at approximately 2.4% of total stock with launches including Jewel Changi Airport, Payar Lebar Quarter and Funan. While FY19 launches may not be in direct competition, based on residential catchment area, as FCT (with the exception of Changi City Point), approximately 36% of known supply pipeline will be constructed outside of city central in the future.

Change in management. Mr Richard Ng will succeed Dr. Chew Tuan Chiong as the new CEO of FCT with effect from 1 July 2019. He had previously held various senior management appointments with CapitaLand Group and PGIM (Singapore) prior to joining Frasers Property Singapore last year.

Dual acquisitions are DPU-accretive. Overall pro forma DPU impact will be +1.1% accretive. NAV per unit will also increase from S\$2.08 to S\$2.13. At the last trading price of S\$2.55, this would translate to a P/B ratio of 1.2x. Half of the gross proceeds raised (S\$369.3mn) will be used to pare down the existing bridging loans taken up for the PREARFL acquisition. Pro forma gearing ratio will increase to 32.7% and lies well within the healthy range.

Valuation & Action: Reinitiate with NEUTRAL, TP of S\$2.33.

We reinitiate coverage on FCT with a target price of S\$2.33 on the basis of a 6.9% cost of equity and 1.5% terminal growth rate. This represents a -4.2% downside, inclusive of FY19's forward dividend yield of 4.8%. While FCT stands out amongst the S-REITs with a clear growth strategy, we prefer to wait for a more attractive entry price to accumulate. In comparison with peers, FCT's is in line with other quality retail S-REITs in terms of P/B ratio and forward dividend yield.

Risks: Lacklustre performance of the smaller malls.

Waterway Point Acquisition

Waterway Point is the residential component of mixed development, Watertown. The mall can be accessed via public train service through Punggol MRT and LRT stations and major expressways TPE and SLE.

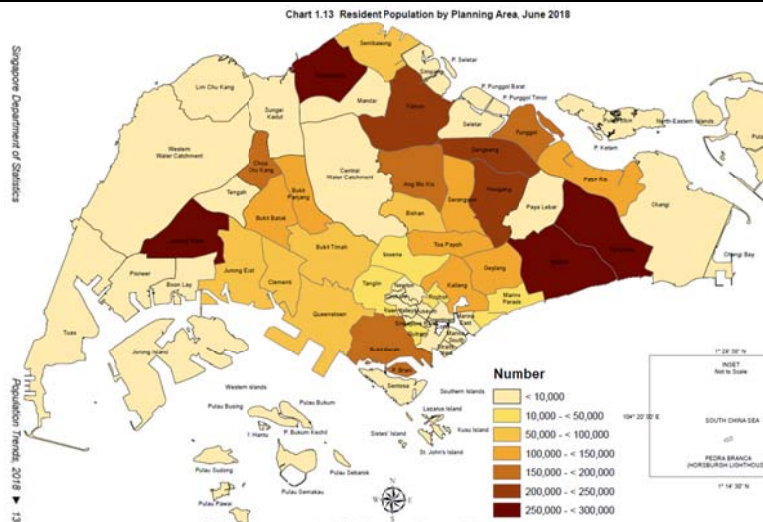
Figure 1: Waterway Point Property Information

	<table border="1"> <tr> <td>TOP / Operation Date</td> <td>December 2015 / January 2016</td> </tr> <tr> <td>Location</td> <td>83 Punggol Central, Singapore 828761</td> </tr> <tr> <td>Title</td> <td>99-year leasehold title commencing 18 May 2011</td> </tr> <tr> <td>Gross Floor Area</td> <td>542,493 sq ft</td> </tr> <tr> <td>Net Lettable Area</td> <td>371,200 sq ft⁽¹⁾</td> </tr> <tr> <td>No. of Storeys</td> <td>Four (includes two basement levels)</td> </tr> <tr> <td>Car Park Lots</td> <td>623</td> </tr> <tr> <td>Committed Occupancy as at 31 March 2019</td> <td>98.1%</td> </tr> <tr> <td>Weighted Average Lease Expiry as at 31 March 2019</td> <td>By Gross Rental Income: 1.80 years By NLA: 1.89 years</td> </tr> <tr> <td>Key Tenants</td> <td>FairPrice Finest, Shaw Theatres, Best Denki, Daiso, Cotton On, H&M, Uniqlo, Koufu</td> </tr> <tr> <td>NPI (FY2018)⁽²⁾</td> <td>S\$61.1 million</td> </tr> <tr> <td>NPI Yield (based on Agreed Property Value)</td> <td>4.7%</td> </tr> </table>	TOP / Operation Date	December 2015 / January 2016	Location	83 Punggol Central, Singapore 828761	Title	99-year leasehold title commencing 18 May 2011	Gross Floor Area	542,493 sq ft	Net Lettable Area	371,200 sq ft ⁽¹⁾	No. of Storeys	Four (includes two basement levels)	Car Park Lots	623	Committed Occupancy as at 31 March 2019	98.1%	Weighted Average Lease Expiry as at 31 March 2019	By Gross Rental Income: 1.80 years By NLA: 1.89 years	Key Tenants	FairPrice Finest, Shaw Theatres, Best Denki, Daiso, Cotton On, H&M, Uniqlo, Koufu	NPI (FY2018) ⁽²⁾	S\$61.1 million	NPI Yield (based on Agreed Property Value)	4.7%
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Source: Company, KGI Securities

Waterway Point's trade area has one of the lowest retail mall floor space per capita at 2.77 sq ft, about half the overall average across Singapore (5.9 sq ft).

Figure 1: Punggol precinct serves approximately 162,000 residents



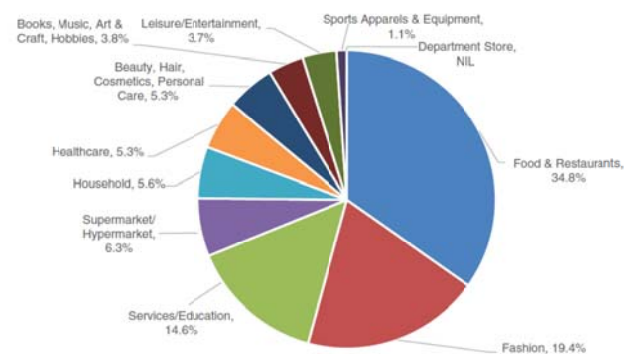
Source: Singstat, KGI Securities

Figure 3: Comparison of Waterway Point deal as opposed to recent retail property transactions

Retail Property	Location	Transaction Price	Price psft	NPI Yield
Rivervale Mall	Seng Kang	S\$230mn	S\$2,833	4.4%
Westgate	Jurong	S\$789.6mn	S\$2,746	4.3%
Sembawang Shopping Centre	Sembawang	S\$248mn	S\$1,727	4.2%
Waterway Point	Punggol	S\$440.6mn	S\$3,502	4.7%
Capitol Piazza & Capitol Theatre	City Hall	S\$1,128mn	S\$2,746	n/a
The Rail Mall	Bukit Panjang	S\$63.24mn	S\$1,727	6.0%

Source: Company, KGI Securities

Figure 4: Top 10 tenants contribute 29% to gross rental income in Waterway Point



Source: Company, KGI Securities

Valuations

Figure 5: DDM valuation

SGD cents	FY17	FY18	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F
DPU	11.7	12.1	12.2	12.3	12.3	12.7	13.0	13.3	13.5
YoY (%)			0.3%	1.3%	0.2%	2.5%	2.5%	2.5%	1.5%
Terminal value per unit									259.4
Cost of Equity		6.8%							
Target Price (\$\$)		2.33							
Capital Appreciation		-9.0%							
Forward Dividend		4.8%							

Source: KGI Research

Figure 6: Pro Forma financial effects of dual acquisitions (on FY18 DPU)

	Before Waterway Point and PREARFL Acquisition	PREARFL Acquisition	After PREARFL Acquisition	Waterway Point Acquisition	After Waterway Point Acquisition	After Waterway Point and PREARFL Acquisition
Total return for the year (\$\$'000)	166,820	16,053	182,873	32,961	199,781	215,834
Distributable Income (\$\$'000)	111,316	10,486	121,802	13,412	124,728	135,214
Weighted average number of issued and issuable units ('000)	925,881	82,470	1,008,351	105,103	1,030,984	1,113,454
DPU (Singapore cents)	12	-	12.08	-	12.091	12.14
DPU Accretion (%)	-	-	0.5%	-	0.6%	1.1%

Source: Company, KGI Research

Figure 7: Local peers

Company Name	Last Price (local \$)	Currency Adj. Market Cap (US\$ m)	Dividend Yield (%)			P/B (x)			6M Average daily trading volume (\$\$'000)	YTD Price Performance (%)	1YR Price Performance (%)
			Current	FY19F	FY20F	Current	FY19F	FY20F			
FRASERS CENTREPOINT TRUST	SGD 2.54	2,084	5.3	4.8	5.1	1.2	1.2	1.2	4,193	17.2	15.1
SINGAPORE LISTED RETAIL REITS											
FORTUNE REIT	HKD 10.64	2,630	5.7	5.0	5.2	0.6	0.6	0.6	693	19.4	14.7
CAPITALAND MALL TRUST	SGD 2.56	6,955	5.1	4.7	4.9	1.3	1.3	1.3	24,817	13.3	25.5
MAPLETREE COMMERCIAL TRUST	SGD 2.03	4,328	4.8	4.6	4.6	1.3	1.3	1.3	15,088	23.0	31.8
MAPLETREE NORTH ASIA COMMERC	SGD 1.44	3,375	5.8	5.6	5.6	1.0	1.0	1.0	9,620	26.3	25.3
DASIN RETAIL TRUST	SGD 0.89	367	12.8	8.1	8.2	0.6	0.6	0.6	264	2.9	2.3
SPH REIT	SGD 1.06	2,020	7.7	5.5	5.6	1.1	1.1	1.1	969	6.0	6.5
STARHILL GLOBAL REIT	SGD 0.78	1,245	7.2	6.1	6.2	0.9	0.8	0.8	1,838	14.0	19.2
CAPITALAND RETAIL CHINA TRUS	SGD 1.54	1,133	7.5	6.6	6.9	1.0	1.0	1.0	2,822	13.2	4.8
LIPPO MALLS INDONESIA RETAIL	SGD 0.23	490	11.3	10.4	10.4	0.8	-	-	696	26.4	27.0
SASSEUR REAL ESTATE INVESTME	SGD 0.79	689	7.7	8.3	8.5	0.8	0.8	0.8	932	20.8	5.4
BHG RETAIL REIT	SGD 0.71	262	7.2	-	-	0.8	-	-	18	-1.4	2.1
Mean		2,136	7.5	6.5	6.6	0.9	1.0	0.9	5251	14.9	9.8
Median		1,245	7.2	5.8	5.9	0.9	1.0	1.0	969	14.0	6.5

Source: Bloomberg, KGI Research

Financials

INCOME STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
Gross revenue	181.6	193.3	204.9	226.9	227.4
Property expenses	(36.4)	(40.2)	(39.5)	(43.0)	(43.1)
Net property income	145.2	153.1	165.4	183.9	184.3
REIT Manager's fees	(14.5)	(15.2)	(15.3)	(15.5)	(15.5)
REIT Trustee's fees	(2.6)	(2.0)	(1.8)	(2.1)	(2.1)
Net interest expense	(17.6)	(20.0)	(27.7)	(33.4)	(33.4)
Other expenses	-	-	-	-	-
Net profit/(loss)	110.5	115.9	120.6	132.9	133.3
Change in fair value - investment ppty	94.6	62.7	0.0	0.0	0.0
Others	4.4	4.1	16.5	31.1	31.1
Total return before tax	209.5	182.7	137.1	163.9	164.3
Income tax	(15.6)	(16.0)	(16.1)	(17.9)	(18.0)
Total return after tax	193.9	166.8	120.9	146.0	146.3
Distributable income	110.6	111.1	117.9	134.3	134.6
BALANCE SHEET (SGD mn)	2017A	2018A	2019F	2020F	2021F
Cash and cash equivalents	13.5	21.7	35.9	32.3	28.9
Trade and other receivables	4.3	3.0	6.1	5.1	5.1
Other current assets	0.0	0.1	0.0	0.0	0.0
Total current assets	17.8	24.7	42.0	37.3	34.0
Investment properties	2,668.1	2,749.0	3,189.6	3,189.6	3,189.6
Intangibles, others	65.0	66.4	441.9	441.9	441.9
Total assets	2,750.9	2,840.2	3,673.4	3,668.8	3,665.6
Trade and other payables	50.0	62.5	73.7	73.4	74.5
Borrowings	152.0	217.0	358.9	358.9	358.9
Total current liabilities	202.0	279.5	432.6	432.3	433.4
LT Borrowings	645.5	595.6	834.8	834.8	834.8
Other non-current liabilities	31.1	31.5	30.3	30.2	30.8
Total liabilities	878.7	906.6	1,297.7	1,297.3	1,299.0
Unitholders' funds and reserves	1,872.2	1,933.5	2,375.7	2,371.5	2,366.6
Total liabilities and equity	2,750.9	2,840.2	3,673.4	3,668.8	3,665.6
CASH FLOW STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
Total return before tax	193.9	166.8	120.9	146.0	146.3
Share of JV and associates results	(4.4)	(3.8)	(16.7)	(31.0)	(31.0)
Other non-cash adjustments	(69.3)	(38.2)	30.4	36.1	36.1
Changes in working capital	2.0	11.8	8.6	0.8	1.0
Cash flows from operations	122.2	136.7	143.2	151.8	152.4
Distribution from JV and associate	4.7	4.0	8.7	15.1	15.1
Acquisition of investment properties	(45.2)	0.0	(817.6)	0.0	0.0
Other investing cashflow	(27.8)	(15.5)	(2.4)	0.0	0.0
Cash flows from investing	(68.2)	(11.6)	(811.3)	15.1	15.1
Borrowings raised / (repaid)	64.0	15.0	381.6	0.0	0.0
Equity raised / (bought back)	0.0	0.0	437.4	0.0	0.0
Dividends paid	(108.2)	(112.2)	(112.6)	(137.1)	(137.4)
Other financing cashflow	(14.9)	(19.8)	(24.2)	(33.4)	(33.4)
Cash flows from financing	(59.2)	(117.0)	682.2	(170.5)	(170.9)
FX Effects, Others	0.0	0.0	0.0	0.0	0.0
Net increase in cash	(5.2)	8.1	14.2	(3.6)	(3.4)
Beginning Cash	18.7	13.5	21.7	35.9	32.3
Ending cash	13.5	21.7	35.9	32.3	28.9
KEY RATIOS	2017A	2018A	2019F	2020F	2021F
DPU (SGD cents)	11.7	12.1	12.2	12.3	12.3
Dividend yield %	6.2%	5.6%	4.8%	4.8%	4.8%
NAV per share (SGD cents)	2.0	2.1	2.6	2.1	2.1
Price/NAV (x)	0.9	1.0	1.0	1.2	1.2
Profitability (%)					
NPI Margin	80%	79%	81%	81%	81%
Net Margin	115%	95%	67%	72%	72%
ROE	11%	9%	6%	7%	7%
ROA	7%	6%	3%	4%	4%
Financial Structure					
Interest Coverage (x)	12.9	10.1	6.0	5.9	5.9
Gearing (%)	29.9%	29.6%	32.5%	32.5%	32.6%

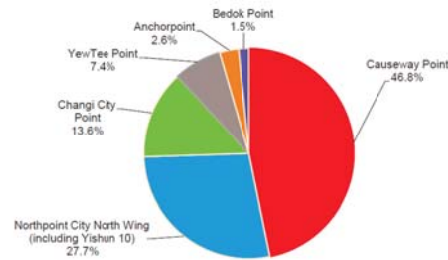
Source: Company Data, KGI Research

Figure 8: Company profile

Frasers Centrepoint Trust (FCT) is a Singapore real estate investment trust (REIT) listed on Singapore Exchange Securities Trading Limited (the SGX-ST) since 5 July 2006. FCT's portfolio consists of six quality Singapore suburban malls located in residential areas and positioned to serve necessity shopping needs to the nearby residential catchment. The REIT is managed by the Frasers Centrepoint Asset Management Ltd., a real estate management company and subsidiary of Frasers Centrepoint Limited.

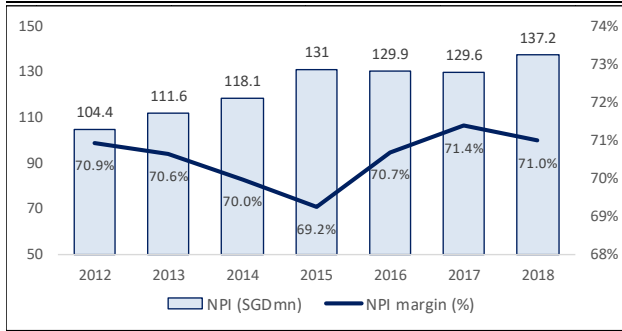
Source: Company

Figure 9: Portfolio breakdown by NPI contribution



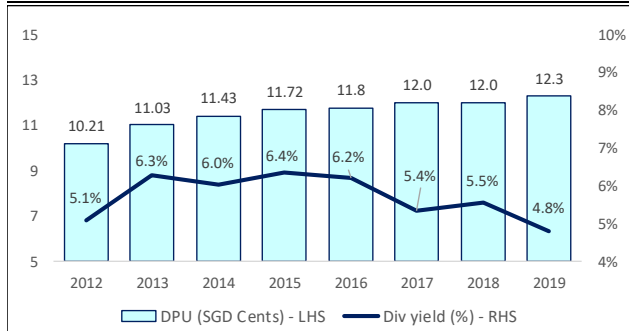
Source: Company Data, KGI Research

Figure 10: NPI vs NPI margins



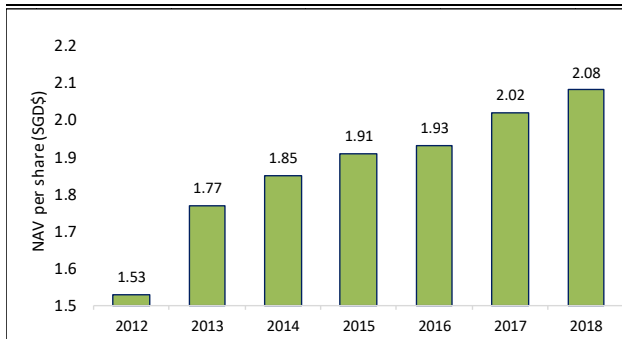
Source: Company Data, KGI Research

Figure 11: DPU and Dividend yield



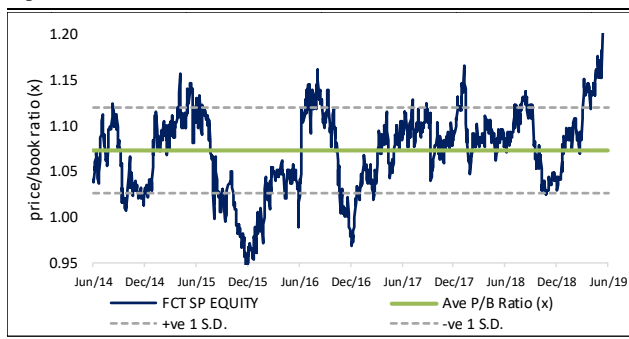
Source: Company Data, KGI Research

Figure 12: NAV per share (\$S)



Source: Company Data, KGI Research

Figure 13: 5 Year Historical P/B band



Source: Company Data, KGI Research

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